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C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 001100

SIPDIS

STATE FOR WHA, T AND PM. DEFENSE FOR USD/AT&L

E.O. 12958: DECL: 09/01/2019

TAGS: [PREL](#) [ETTC](#) [MASC](#) [BR](#)

SUBJECT: QUESTIONS ABOUT SUBMARINE PURCHASE COULD IMPACT  
FIGHTER COMPETITION

REF: A. 08 BRASILIA 93

[B](#). BRASILIA 34

[C](#). BRASILIA 1094

Classified By: Charge d'Affaires Lisa Kubiske. Reason: 1.4(d)

[1](#)1. (C) SUMMARY. Brazilian Minister of Defense Nelson Jobim has made modernization of the armed forces one of his top priorities, particularly in terms of the acquisition of advanced military equipment. One the key acquisition initiatives has been the purchase of submarines from France, leading, supposedly, to the development of a nuclear powered submarine. Jobim and Brazil,s political leadership see the submarine as a vital element of Brazil,s development as a major power and have settled on the deal with France as the surest path to development of such a vessel. Recently, the submarine purchase, and defense spending in general, have been bedeviled with a number of well-founded questions from the Brazilian Congress and press, primarily because of its cost. Given the political will behind acquisition of a nuclear submarine, it is unlikely that development will be halted, but the arguments being used could have ramifications for Brazil,s upcoming purchase of fighter aircraft and USG chances to win this competition. We can, however, turn concerns over the submarines to our advantage by focusing attention on the advantages Boeing can offer in terms of predictable costs, proven hardware and benefits to Brazilian industry. See paragraph 8 for recommendations. END SUMMARY.

[1](#)2. (U) On August 27, PolOff attended Defense Minister Jobim,s hearing before the Foreign Affairs and Defense Committee of the Brazilian Senate, during which he discussed defense purchases, particularly for the Brazilian Navy. Jobim,s remarks, which lasted two hours, were focused on building a case for a nuclear powered submarine based on the need for superior range, speed and autonomy. These attributes are supposedly needed to defend Brazilian interests in the deep waters of the South Atlantic, including pre-salt oil deposits in Brazil,s economic zone and potential future exploitation of deep seabed resources. According to Jobim, the importance of protecting these interests justified the costs of the submarine program and its support facilities.

[1](#)3. (SBU) In 2008, Jobim reached agreement with the French government for the purchase of four diesel-electric submarines plus assistance expanding the hull of a fifth to accommodate a nuclear propulsion system to be developed exclusively by Brazil. Prior to this deal, Germany was

Brazil's submarine supplier, and German officials expressed surprise that Jobim had announced the French purchase without comparison shopping in Berlin. Jobim's explanation has been that the ultimate goal of the submarine program is deployment of a nuclear powered boat and French experience with nuclear subs, and their reputation for easy transfers of technology, made France the only logical partner. The purchase agreement is due to be signed by Presidents Lula and Sarkozy on September 7, Brazilian Independence Day. The total cost is expected to reach 6.8 billion euros, including the construction of a new submarine base.

¶4. (SBU) While there is little question among Brazilians that owning a nuclear powered submarine will be in the national interest, there is growing opposition to the program, primarily because of its cost. Over the last two months, a spate of press reports has called attention to the high cost of the program (to put the cost in perspective, Brazil's entire defense budget for 2008 was about \$23 billion) and Jobim's decisions to award the deal for the subs and their new base to French interests without competition. Jobim's explanation has been that France was the only possible source for the necessary technology transfer, an argument undermined by the leak to Globo News of a document from 2008 stating that the German government had approved the transfer of submarine design technology.<sup>8</sup> On August 26, Valor Economico ran an article noting the problems other customers of French military equipment have experienced with poor quality and higher than expected costs. Former President Fernando Henrique Cardoso has also attacked the high cost of the submarine purchase and at the same time

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questioned the government's intention also to purchase next generation fighter aircraft. Despite the attacks, the overall goal of deploying a nuclear powered submarine is not in question. It is likely that the project will weather the current storm, although its funding may be less than the MOD would like in the short term.

¶5. (C) In a recent televised interview, as well as in Senate testimony, Jobim based his arguments for the purchase of military equipment on two points: technology transfer and domestic manufacture. Even though the Germans had approved transfer of technology, Jobim stated that only the French were able to do so in a way that gave confidence. The Brazilian Navy offered a similar explanation, but when the sale was announced, the German DCM said that Germany had not been consulted, and that he thought the German manufacturer could match whatever the French could offer. Brazilian Security analyst and Jobim insider Roberto Godoy has said that despite the letter from Secretary Clinton assuring the Brazilians that all necessary technology has been approved, the USG offer is "as clear" as that of France, without explanation of the lacking clarity. Jobim's newest wrinkle has been to use the Defense Strategy's mandate for increasing Brazil's domestic defense industry to call for in-country production of aircraft ) just as the later French submarines are to be built in Brazil. "We are not buyers, we are partners in production," he said. While Boeing's offer includes substantial offsets for Brazilian industry, in-country assembly is not included because Brazilian manufacturer Embraer told Boeing it did not want the expense of setting up an assembly line for a limited number of aircraft. EMBASSY COMMENT: This message has clearly not reached Jobim, whose new emphasis on Brazilian assembly of the aircraft will clearly favor Boeing's competitors.

#### ANALYSIS

¶6. (C) Analysis of the Brazilian submarine plan raises several issues (ref a). If there were an oceanic threat to Brazilian interests, one nuclear submarine would be far less effective a deterrent than the four or five diesel-electric boats that could be built for the same cost. The

technological challenges to development of a naval reactor and the costs associated with such development are also likely to pose obstacles. As noted in ref a, however, there are strong political reasons for going ahead. Brazil's 2008 Defense Strategy (ref b) identifies nuclear power as a strategic interest. Since Brazil is a NPT member and is prohibited from developing nuclear weapons, the Brazilian government associates nuclear energy with security. Brazilian government contacts have noted that the five countries that currently operate nuclear powered submarines are the five permanent members of the UN Security Council, a status which is a key GOB goal. While there is no support in Brazil for developing nuclear weapons, the second class status to which Brazil relegated itself by signing the NPT is keenly felt. The nuclear powered submarine should be seen as a nuclear weapon substitute and is therefore essential in the minds of Brazilian leadership to reaching the great power status to which they aspire.

#### IMPACT ON FIGHTER COMPETITION

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17. (C) The submarine purchase could have several potential impacts on the fighter sale. From the beginning of the competition, France has hinted that there could be potential for a submarine-aircraft package deal to lower overall costs.

On the other hand, recent negative publicity surrounding the submarine deal could have a negative impact on French hopes to sell fighters as well. President Lula will be the decision maker on the fighter sale, but his top priority is increasingly assuring the election of his chosen successor in the 2010 Presidential election. With opposition figures weighing in against defense spending, there is an increasing danger that Lula will postpone a fighter purchase into the next administration to avoid potential criticism. The case of the submarines provides a caution as the Brazilians have used technology transfer as an excuse for buying from their preferred partner, while ignoring a potentially attractive

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German offer.

#### RECOMMENDATIONS

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18. (C) While the submarine deal illustrates possible threats to the sale of U.S. origin fighters, it also suggests an approach throughout the critical final period before a decision on the fighters is made. Since Boeing alone of the three competitors is offering a proven system, the USG and Boeing should highlight this advantage, making the following points:

-- The USG has approved the transfer of all necessary technology for Brazil to purchase the F18 Super Hornet. This is technology proven in thousands of operational missions. Its competitors can only offer technology still on the drawing board.

-- The Super Hornet has the lowest life cycle cost. Because it is already in operation, we can state with confidence what this cost will be. Competitors can only guess and are apt to underestimate.

-- Boeing is offering an unmatched spectrum of benefits to Brazilian industry and has an unparalleled record in meeting its offset commitments.

-- Boeing has a perfect record of delivering aircraft to its customers. Neither of its competitors has ever made a sale of the aircraft they are offering to Brazil. This message should be delivered at all possible opportunities to Brazilian policy makers, especially Jobim and Lula. The USG offer was widely perceived as trailing the French until President Obama raised the issue with President Lula in July. Now, in the endgame, a further Presidential intervention could again be key.

KUBISKE